

City of Albion, Michigan

**Financial Report
with Additional Information
December 31, 2003**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Albion</u>	County Calhoun
Audit Date December 31, 2002	Opinion Date July 8, 2004	Date Accountant Report Submitted To State: July 20, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 67 West Michigan Avenue	City Battle Creek	State MI	ZIP 49017
Accountant Signature 			

City of Albion, Michigan

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Independent Auditor's Report

To the Mayor and City Council
City of Albion, Michigan

We have audited the accompanying general purpose financial statements of the City of Albion, Michigan as of December 31, 2003 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. *Government Auditing Standards* also require us to issue a report on our consideration of the City's internal control structure and a report on its compliance with laws and regulations; those reports have been separately issued.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Albion, Michigan as of December 31, 2003 and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

July 8, 2004

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City of Albion, Michigan

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets				
Cash and investments (Note 2)	\$ (616,395)	\$ 1,359,652	\$ (214,250)	\$ (118,089)
Receivables:				
Taxes	315,873	17,573	13,945	38,842
Customers	-	-	-	-
Accrued interest	-	-	-	-
Rehabilitation loans	-	459,751	-	-
Economic Development loans	-	277,017	899	-
Other	41,632	20,592	-	-
Due from other funds (Note 6)	401,010	139,091	351,754	-
Due from component units	-	17,209	-	-
Due from other governmental units	346,816	97,739	-	-
Inventories and other assets	95,414	14,337	-	-
Restricted assets (Note 12)	-	-	-	-
Capital assets (Note 4)	-	-	-	-
Amount available in Debt Service Funds	-	-	-	-
Amount to be provided for retirement of general long-term debt	-	-	-	-
Total assets	<u>\$ 584,350</u>	<u>\$ 2,402,961</u>	<u>\$ 152,348</u>	<u>\$ (79,247)</u>

**Combined Balance Sheet - All Fund Types,
Account Groups, and Component Units
December 31, 2003**

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Memorandum Only	Component
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	Total Primary Government	Units
\$ 1,553,794	\$ 211,107	\$ 16,813,958	\$ -	\$ -	\$ 18,989,777	\$ 492,134
-	-	-	-	-	386,233	-
378,134	-	-	-	-	378,134	-
-	-	87,291	-	-	87,291	-
-	-	-	-	-	459,751	-
-	-	-	-	-	277,916	-
2,260	39	52,693	-	-	117,216	1,028
14,769	-	-	-	-	906,624	-
-	-	-	-	-	17,209	-
-	-	-	-	-	444,555	-
26,370	2,564	-	-	-	138,685	10,318
210,661	-	-	-	-	210,661	-
9,800,350	408,094	-	6,239,531	-	16,447,975	1,866,094
-	-	-	-	136,595	136,595	-
-	-	-	-	2,589,718	2,589,718	527,980
<u>\$11,986,338</u>	<u>\$ 621,804</u>	<u>\$16,953,942</u>	<u>\$ 6,239,531</u>	<u>\$ 2,726,313</u>	<u>\$41,588,340</u>	<u>\$ 2,897,554</u>

City of Albion, Michigan

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities and Fund Equity				
Liabilities				
Accounts payable	\$ 77,823	\$ 11,117	\$ 899	\$ 10,707
Accrued and other liabilities	111,790	25,586	-	-
Due to other funds	114,304	492,320	-	-
Due to primary government	-	-	-	-
Due to other governmental units	31,550	-	294	-
Rehabilitation escrow	-	750,475	-	-
Economic Development escrow	-	421,185	-	-
Deferred revenue	219,004	21,957	14,560	29,984
Long-term debt (Note 5)	-	-	-	-
Total liabilities	554,471	1,722,640	15,753	40,691
Fund Equity				
Contributed capital (Note 7)	-	-	-	-
Investment in general fixed assets	-	-	-	-
Retained earnings:				
Reserve for restricted assets (Note 12)	-	-	-	-
Unreserved (accumulated deficit)	-	-	-	-
Fund balances:				
Reserved:				
Public Safety Officers' Pension Fund	-	-	-	-
Public Safety Grants	12,640	-	-	-
Perpetual care	-	-	-	-
Library	-	-	-	-
Senior Citizen Housing	-	-	-	-
Prepaid expenses	95,414	-	-	-
Debt service	-	-	-	-
Undesignated (deficit)	(78,175)	680,321	136,595	(119,938)
Total fund equity	29,879	680,321	136,595	(119,938)
Total liabilities and fund equity	<u>\$ 584,350</u>	<u>\$ 2,402,961</u>	<u>\$ 152,348</u>	<u>\$ (79,247)</u>

**Combined Balance Sheet - All Fund Types,
Account Groups, and Component Units (Continued)
December 31, 2003**

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Memorandum Only	
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-term Debt	Total Primary Government	Component Units
\$ 43,021	\$ 2,916	\$ 315,692	\$ -	\$ -	\$ 462,175	\$ 32,704
133,121	1,237	1,835	-	-	273,569	12,412
-	-	300,000	-	-	906,624	-
-	-	-	-	-	-	17,209
-	-	149,469	-	-	181,313	5
-	-	-	-	-	750,475	-
-	-	-	-	-	421,185	-
-	-	-	-	-	285,505	-
1,585,987	-	-	-	2,726,313	4,312,300	527,980
1,762,129	4,153	766,996	-	2,726,313	7,593,146	590,310
10,315,753	-	-	-	-	10,315,753	-
-	-	-	6,239,531	-	6,239,531	1,866,094
210,661	-	-	-	-	210,661	-
(302,205)	617,651	-	-	-	315,446	-
-	-	13,574,449	-	-	13,574,449	-
-	-	-	-	-	12,640	-
-	-	363,253	-	-	363,253	-
-	-	991,361	-	-	991,361	-
-	-	1,107,883	-	-	1,107,883	-
-	-	-	-	-	95,414	-
-	-	150,000	-	-	150,000	-
-	-	-	-	-	618,803	441,150
10,224,209	617,651	16,186,946	6,239,531	-	33,995,194	2,307,244
<u>\$11,986,338</u>	<u>\$ 621,804</u>	<u>\$16,953,942</u>	<u>\$ 6,239,531</u>	<u>\$ 2,726,313</u>	<u>\$41,588,340</u>	<u>\$ 2,897,554</u>

City of Albion, Michigan

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Revenue				
Taxes	\$ 2,179,805	\$ 180,536	\$ 138,432	\$ 266,959
Licenses and permits	79,347	-	-	-
Federal sources	142,785	255,947	-	-
State sources	1,419,862	616,633	-	-
Local sources	24,352	-	-	-
Charges for services	238,196	210,549	-	-
Fines and forfeitures	58,421	-	-	-
Miscellaneous revenue	146,173	171,169	-	-
Total revenue	4,288,941	1,434,834	138,432	266,959
Expenditures				
General government	1,038,189	-	-	-
Public safety	2,561,365	-	-	-
Highways and streets	169,875	602,773	-	392,930
Economic development	-	62,508	-	-
Welfare, culture, and recreation	598,153	428,718	-	-
Library	-	-	-	-
Community maintenance and development	-	120,339	-	-
Debt service	-	-	454,084	-
Miscellaneous expenditures	193,316	12,052	-	-
Total expenditures	4,560,898	1,226,390	454,084	392,930
Excess of Revenue Over (Under) Expenditures	(271,957)	208,444	(315,652)	(125,971)
Other Financing Sources (Uses)				
Operating transfers in	400,000	26,826	233,656	-
Operating transfers from primary government	-	-	-	-
Operating transfers from component units	-	-	87,894	-
Operating transfers out	(46,214)	(214,268)	-	-
Operating transfers to component units	(241,993)	-	-	-
Operating transfers to primary government	-	-	-	-
Total other financing sources (uses)	111,793	(187,442)	321,550	-
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(160,164)	21,002	5,898	(125,971)
Fund Balances - Beginning of year	190,043	659,319	130,697	6,033
Fund Balances (Deficit) - End of year	<u>\$ 29,879</u>	<u>\$ 680,321</u>	<u>\$ 136,595</u>	<u>\$ (119,938)</u>

See Notes to Financial Statements.

**Combined Statement of Revenue, Expenditures, and
Changes in Fund Balances - All Governmental Fund Types,
Expendable Trust Fund, and Component Units
Year Ended December 31, 2003**

Expendable Trust Fund	Memorandum Only	
Senior Citizen Housing Facilities	Total Primary Government	Component Units
\$ -	\$ 2,765,732	\$ 379,043
-	79,347	-
-	398,732	-
-	2,036,495	84,149
21,190	45,542	1,251
-	448,745	154,088
-	58,421	47,151
<u>26,345</u>	<u>343,687</u>	<u>94,279</u>
47,535	6,176,701	759,961
-	1,038,189	-
-	2,561,365	-
-	1,165,578	-
-	62,508	545,628
-	1,026,871	-
-	-	432,256
-	120,339	-
-	454,084	-
<u>150</u>	<u>205,518</u>	<u>-</u>
<u>150</u>	<u>6,634,452</u>	<u>977,884</u>
47,385	(457,751)	(217,923)
-	660,482	-
-	-	266,160
-	87,894	-
(400,000)	(660,482)	-
-	(241,993)	-
<u>-</u>	<u>-</u>	<u>(87,894)</u>
<u>(400,000)</u>	<u>(154,099)</u>	<u>178,266</u>
(352,615)	(611,850)	(39,657)
<u>1,610,498</u>	<u>2,596,590</u>	<u>480,807</u>
<u>\$ 1,257,883</u>	<u>\$ 1,984,740</u>	<u>\$ 441,150</u>

City of Albion, Michigan

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Taxes	\$ 2,237,000	\$ 2,179,805	\$ (57,195)
Licenses and permits	92,500	79,347	(13,153)
Federal sources	131,600	142,785	11,185
State sources	1,403,600	1,419,862	16,262
Local sources	24,350	24,352	2
Charges for services	228,500	238,196	9,696
Fines and forfeitures	57,000	58,421	1,421
Miscellaneous revenue	124,750	146,173	21,423
Total revenue	4,299,300	4,288,941	(10,359)
Expenditures			
General government	1,054,300	1,038,189	16,111
Public safety	2,405,940	2,561,365	(155,425)
Highways and streets	165,000	169,875	(4,875)
Economic development	-	-	-
Welfare, culture, and recreation	592,000	598,153	(6,153)
Community maintenance and development	-	-	-
Debt service	-	-	-
Miscellaneous expenditures	180,000	193,316	(13,316)
Total expenditures	4,397,240	4,560,898	(163,658)
Excess of Revenue Over (Under) Expenditures	(97,940)	(271,957)	(174,017)
Other Financing Sources (Uses)			
Operating transfers in	400,000	400,000	-
Operating transfers out	(302,060)	(288,207)	13,853
Total other financing sources (uses)	97,940	111,793	13,853
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	-	(160,164)	(160,164)
Fund Balances - Beginning of year	190,043	190,043	-
Fund Balances (Deficit) - End of year	<u>\$ 190,043</u>	<u>\$ 29,879</u>	<u>\$ (160,164)</u>

**Combined Statement of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
General, Special Revenue, and Debt Service Fund Types
Year Ended December 31, 2003**

Special Revenue Funds			Debt Service Funds		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 196,000	\$ 180,536	\$ (15,464)	\$ 138,432	\$ 138,432	\$ -
-	-	-	-	-	-
272,000	255,947	(16,053)	-	-	-
672,101	616,633	(55,468)	-	-	-
-	-	-	-	-	-
237,850	210,549	(27,301)	-	-	-
-	-	-	-	-	-
109,000	197,995	88,995	321,550	321,550	-
1,486,951	1,461,660	(25,291)	459,982	459,982	-
-	-	-	-	-	-
-	-	-	-	-	-
754,451	627,463	126,988	-	-	-
7,200	62,508	(55,308)	-	-	-
497,211	608,679	(111,468)	-	-	-
200,800	120,339	80,461	-	-	-
-	-	-	454,084	454,084	-
4,000	21,669	(17,669)	-	-	-
1,463,662	1,440,658	23,004	454,084	454,084	-
23,289	21,002	(2,287)	5,898	5,898	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
23,289	21,002	(2,287)	5,898	5,898	-
659,319	659,319	-	130,697	130,697	-
\$ 682,608	\$ 680,321	\$ (2,287)	\$ 136,595	\$ 136,595	\$ -

City of Albion, Michigan

Combined Statement of Revenue, Expenses, and Changes in Retained Earnings/Fund Balances All Proprietary Fund Types and Nonexpendable Trust Funds Year Ended December 31, 2003

	Proprietary Fund Types		Fiduciary Fund Types	Total
	Enterprise	Internal Service	Nonexpendable Trusts	(Memorandum Only)
Operating Revenue				
Charges for services	\$ 1,363,932	\$ 235,185	\$ 3,450	\$ 1,602,567
Miscellaneous	95,551	303	-	95,854
Total operating revenue	1,459,483	235,488	3,450	1,698,421
Operating Expenses				
Salaries and wages	554,398	47,926	-	602,324
Administrative costs	52,404	14,024	-	66,428
Fringe benefits	203,189	14,590	-	217,779
Maintenance and supplies	165,761	43,258	-	209,019
Purchased power and utilities	168,676	10,080	-	178,756
Professional services	73,417	-	-	73,417
Depreciation	454,184	68,373	-	522,557
Rental expense	6,587	16	-	6,603
Insurance	46,010	749	-	46,759
Miscellaneous expense	5,097	293	-	5,390
Total operating expenses	1,729,723	199,309	-	1,929,032
Operating Income (Loss)	(270,240)	36,179	3,450	(230,611)
Nonoperating Revenue (Expense)				
Investment income	16,603	-	20,308	36,911
Interest expense	(85,499)	-	-	(85,499)
Total nonoperating revenue (expense)	(68,896)	-	20,308	(48,588)
Net Income (Loss)	(339,136)	36,179	23,758	(279,199)
Other Financing Uses - Operating transfers to component units	-	-	(24,167)	(24,167)
Net Income (Loss)	(339,136)	36,179	(409)	(303,366)
Retained Earnings/Fund Balances				
Beginning of year	247,592	581,472	1,355,023	2,184,087
End of year	<u>\$ (91,544)</u>	<u>\$ 617,651</u>	<u>\$ 1,354,614</u>	<u>\$ 1,880,721</u>

City of Albion, Michigan

Combined Statement of Cash Flows All Proprietary Fund Types and Nonexpendable Trust Funds Year Ended December 31, 2003

	Proprietary Fund Types		Fiduciary Fund Types	Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trusts	
Cash Flows from Operating Activities				
Operating income (loss)	\$ (270,240)	\$ 36,179	\$ 3,450	\$ (230,611)
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	454,184	68,373	-	522,557
Changes in assets and liabilities:				
Receivables	706,741	-	(7,448)	699,293
Due from other funds	-	2,381	-	2,381
Inventories and other assets	(2,357)	961	-	(1,396)
Accounts payable	21,781	378	-	22,159
Accrued and other liabilities	(256)	(210)	-	(466)
Net cash provided by (used in) operating activities	909,853	108,062	(3,998)	1,013,917
Cash Flows from Noncapital Financing Activities				
Operating transfers out	-	-	(24,167)	(24,167)
Cash Flows from Capital and Related Financing Activities				
Repayments of advances to other funds	(300,371)	-	-	(300,371)
Receipt of advances from other funds	546,613	-	-	546,613
Principal and interest paid on long-term debt	(184,852)	-	-	(184,852)
Purchase of capital assets	(26,507)	(112,772)	-	(139,279)
Net cash provided by (used in) capital and related financing activities	34,883	(112,772)	-	(77,889)
Cash Flows from Investing Activities				
Interest received on investments	16,603	-	20,308	36,911
Sale of investments - Net of investment purchases	(13,734)	-	(782)	(14,516)
Net cash provided by investing activities	2,869	-	19,526	22,395
Net Increase (Decrease) in Cash and Cash Equivalents	947,605	(4,710)	(8,639)	934,256
Cash and Cash Equivalents - Beginning of year	(273,027)	215,817	324,286	267,076
Cash and Cash Equivalents - End of year	<u>\$ 674,578</u>	<u>\$ 211,107</u>	<u>\$ 315,647</u>	<u>\$ 1,201,332</u>

During the year ended December 31, 2003, the City had no non-cash transactions.

City of Albion, Michigan

Combined Statement of Cash Flows All Proprietary Fund Types and Nonexpendable Trust Funds (Continued) Year Ended December 31, 2003

	Proprietary Fund Types		Fiduciary Fund Types	Total
	Enterprise	Internal Service	Nonexpendable Trusts	(Memorandum Only)
Balance Sheet Reconciliation				
Cash and investments	\$ 1,764,455	\$ 211,107	\$ 1,354,714	\$ 3,330,276
Less investments	<u>(1,089,877)</u>	<u>-</u>	<u>(1,039,067)</u>	<u>(2,128,944)</u>
Total cash and cash equivalents	<u>\$ 674,578</u>	<u>\$ 211,107</u>	<u>\$ 315,647</u>	<u>\$ 1,201,332</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 1,553,794	\$ 211,107	\$ 1,354,714	\$ 3,119,615
Restricted assets	<u>210,661</u>	<u>-</u>	<u>-</u>	<u>210,661</u>
Total	<u>\$ 1,764,455</u>	<u>\$ 211,107</u>	<u>\$ 1,354,714</u>	<u>\$ 3,330,276</u>

City of Albion, Michigan

Statement of Changes in Plan Net Assets Public Safety Officers' Pension Trust Fund Year Ended December 31, 2003

Additions

Investment income:	
Interest and dividends	\$ 478,175
Net appreciation in fair value of investments	1,365,678
Investment fees	<u>(23,052)</u>
Net investment income	1,820,801
Contributions - Employees	<u>49,864</u>
Total additions	1,870,665

Deductions

Benefit payments	505,189
Refunds of contributions	1,068
Administrative expenses	<u>69,376</u>
Total deductions	<u>575,633</u>

Net Increase 1,295,032

Net Assets Held in Trust for Pension Benefits

Beginning of year	<u>12,279,417</u>
End of year	<u><u>\$ 13,574,449</u></u>

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Albion, Michigan (the "City") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The City is governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the City of Albion, Michigan and its component units. The individual component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

The Albion Building Authority (the "Building Authority") is a five-member board governed by the Council. One member of the board must be a resident of the Maple Grove Apartments. Although it is legally separate from the City, it is reported as if it were part of the primary government because its sole business activity is constructing and leasing property to the City. The financial statements of the Building Authority are consolidated with the financial statements of the City as follows:

- a. The assets of the Building Authority held for payment of outstanding bond issues are reported in the Debt Service Fund.
- b. Fixed assets (completed construction projects) of the Building Authority are reported in the General Fixed Assets Account Group.
- c. Remaining amounts due on bonds issued by the Building Authority are reported in the General Long-term Debt Account Group.

The Senior Citizens Housing Facilities Trust is governed by a three-member board appointed by the City of Albion. Although it is also legally separate from the City, it is reported as if it were part of the primary government because its sole business activity is serving the City through construction of senior citizen facilities, supporting the debt of the Building Authority, and other betterments to the City. The operations of the Section 8 Program are recorded within the Albion Building Authority Special Revenue Fund.

The Albion Public Safety Officers' Pension System has also been blended into the City's financial statements. The system is governed by a five-member Pension Board that includes two individuals chosen by the mayor and City Council. The system is reported as if it were part of the primary government because of the fiduciary responsibility that the City retains relative to the operations of the retirement system.

Note 1 - Summary of Significant Accounting Policies (Continued)

The following component units are reported within the component units column in the combined financial statements. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in Notes 2, 4, 5, and 14.

- a. The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 9 to 12 individuals, is selected by the mayor and City Council. In addition, the Authority's budget is subject to approval by the City Council.
- b. The Tax Increment Finance Authority (TIFA) and the Economic Development Corporation (EDC) were created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The two corporations' governing body, which consists of nine individuals, is selected by the mayor with City Council approval. The TIFA also acts as an agent for the City's Revolving Loan Fund, which is included as a Special Revenue Fund of the City.
- c. The Library was created to provide access to books, periodicals, and other printed media to the residents of the City. The Library Board consists of six members, including one nonvoting member of City Council, all appointed by the mayor and City Council.

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in three broad fund categories as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the City that are not accounted for in another fund. General Fund activities are financed by revenue from income taxes, general property taxes, state-shared revenue, and other sources.

Note 1 - Summary of Significant Accounting Policies (Continued)

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Fund - The Debt Service Fund is used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund. The City's Debt Service Fund was created to account for payments on the long-term debt of the City's Building Authority.

Capital Projects Fund - The Capital Projects Fund is used to account for the development of capital facilities. The City's Capital Projects Fund was created to account for improvements to the City's street infrastructure.

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on primarily a cost-reimbursement basis. At December 31, 2003, the only Internal Service Fund is the Equipment Fund.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. These include the Public Safety Officers' Pension, the Nonexpendable (Cemetery and Library) Trusts, the Expendable (Senior Citizens Housing) Trust, and the Agency Funds. The Public Safety Officers' Pension Fund and the Nonexpendable (Cemetery and Library) Trusts are accounted for in the same manner as proprietary funds. The Expendable Trust is accounted for in the same manner as governmental funds. The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Note 1 - Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The accrual basis of accounting is used by the proprietary funds, similar trust funds, and the Public Safety Officers Pension Fund. All governmental funds, the expendable trust fund, and Agency Funds utilize the modified accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31. Tax bills are mailed and become a lien on July 1 of the following year. These taxes are due on August 10 with the final collection date of February 28 before they are added to the county tax rolls.

- b. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
- c. Normally, expenditures are not divided between years by the recording of prepaid expenses. Prepaid expenses in the General Fund represent advance payments for future years' expenditures.
- d. The noncurrent portion of accumulated sick and vacation days is reflected in the General Long-term Debt Account Group.

Cash Equivalents - For purposes of the statement of cash flows, the proprietary funds and nonexpendable trust funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Investments - Investments are recorded at fair value, based on quoted market prices.

Rehabilitation and Economic Development Loans - The rehabilitation loans represent borrowings by home owners that are paid back on a standard mortgage basis or deferred until the property is sold. Payments received from loans originating from CDBG funds are treated as deferred revenue and available for future loans. The economic development loans represent loans made to businesses within the City of Albion. Principal and interest are paid back on various terms. No revenue is recognized until cash is received. In addition, loans financed with restricted grant revenue are not recognized until an allowable expenditure is incurred.

Note 1 - Summary of Significant Accounting Policies (Continued)

Inventories - Inventories in the proprietary funds are valued at cost on a first-in, first-out basis, which approximates market value.

Fixed Assets and Long-term Liabilities - Fixed assets used in governmental fund-type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Such assets, which are recorded as expenditures at the time of purchase, do not include certain improvements such as roads, bridges, curbs and gutters, streets and sidewalks, and lighting systems. No depreciation has been provided on general fixed assets.

All fixed assets are recorded at cost or, if donated, at their estimated fair value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Fixed Assets Account Group and the General Long-term Debt Account Group are not funds and do not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the proprietary funds are accounted for in those funds. Depreciation on such fixed assets is charged as an expense against the operations of the proprietary funds on a straight-line basis.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Memorandum-only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for the purpose of analysis only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to financial statements.

Note 2 - Deposits and Investments

The City's deposits and investments are included on the balance sheet under the following classifications:

Cash and investments	\$ 18,989,777
Restricted assets	<u>210,661</u>
Total	<u>\$ 19,200,438</u>

The City's balance sheets reflect cash and investments with a negative balance. These amounts do not represent actual bank overdrafts, rather, they merely reflect that specific city funds have disbursed amounts from the City's common checking account in excess of the amount it had recorded as an asset. In total, the bank account has a positive balance.

The City's deposits and investments are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,662,282
Investments in securities, mutual funds, and similar vehicles	15,536,456
Petty cash or cash on hand	<u>1,700</u>
Total	<u>\$ 19,200,438</u>

In addition to the above total are the balances in the component units, including deposits totaling \$456,452, investments totaling \$35,632, and petty cash of \$50.

Deposits

The deposits of the City and its component units are combined and were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$4,433,861. Of that amount, \$500,000 was covered by federal depository insurance and \$3,933,861 was uninsured and uncollateralized.

The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 2 - Deposits and Investments (Continued)

To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool, except that the Agency Fund - Escrow Fund investment earnings are allocated to the General Fund.

Investments

The City is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

In addition to the investment types listed above, the Public Safety Officers' Pension Fund is authorized by Michigan Public Act 485 of 1996 to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City's investments are categorized below to give an indication of the level of risk assumed by the City at December 31, 2003. Risk Category 1 includes those investments that meet any one of the following criteria:

- a. Insured
- b. Registered
- c. Held by the City or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by the following:

- a. The counterparty
- b. The counterparty's trust department (or agent) but not in the City's name

Note 2 - Deposits and Investments (Continued)

All of the following investments are included in Risk Category 2, with the exception of the mutual funds.

	Carrying Amount
U.S. government securities	\$ 1,477,485
Government obligations	2,774,427
Stocks and corporate obligations	10,324,897
Mutual funds	<u>959,647</u>
Total investments	<u>\$ 15,536,456</u>

The mutual funds, which are registered with the SEC, are not categorized because they are not evidenced by securities that exist in physical or book-entry form. Management believes that the investments in the funds comply with the investment authority noted above.

Included in the City's investments at December 31, 2003 are U.S. Treasury strips of approximately \$1,800,000. The strip represents the purchase of the interest portion of a United States Treasury note. Similar to a zero coupon bond, it is purchased at a discount (which represents the future interest earnings of the instrument). There is no prepayment risk associated with this instrument, as the U.S. government is not allowed to call it early. Purchase of this strip allows the City to lock in favorable interest rates for the term of the security.

Note 3 - Budget Information

The annual budget is prepared by the City management and adopted by the City Council with the exception of the Albion Building Authority (formerly Section 8 Program Operating Account), which is adopted by the Albion Building Authority. Subsequent amendments, with the exception of the Albion Building Authority, are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2003 has not been calculated.

The budget has been prepared in accordance with generally accepted accounting principles, except operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)" in the Special Revenue and Debt Service Funds.

The statement comparing actual to budgeted revenue and expenditures has used the same basis of accounting used in preparing the adopted budget.

The budget is adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget and Debt Service Fund budget as adopted by the City Council is included in these financial statements. This comparison includes expenditure budget overruns. A comparison of the actual results of operations to the individual Special Revenue Funds budgets as adopted by the City Council is available at the clerk's office for inspection.

Expenditure budget overruns were as follows:

	Budget	Actual
General Fund - Public safety	\$ 2,405,940	\$ 2,561,365
General Fund - Highways and streets	165,000	169,875
General Fund - Welfare, culture and recreation	592,000	598,153
General Fund - Miscellaneous expense	180,000	193,316
Special Revenue - Welfare, culture, and recreation	497,211	608,679
Special Revenue - Miscellaneous expense	4,000	21,669

At December 31, 2003 and 2002, the Sewer Fund (an Enterprise Fund type) had a retained earnings deficit of \$354,125 and \$169,841, respectively; however, the Sewer Fund has total equity of approximately \$5,165,000 in 2003. In addition, the fund's working capital exceeds \$1,310,000 with a cash and investment balance of approximately \$1,135,000 and total long-term debt of only \$72,000. In order to eliminate the deficit, the City approved a resolution in 2002 to increase water and sewer rates over the next five years.

Note 4 - Capital Assets

A summary of changes in general fixed assets follows:

	Balance January 1, 2003	Additions	Deletions	Balance December 31, 2003
Land	\$ 22,284	\$ -	\$ -	\$ 22,284
Buildings	1,759,734	31,034	-	1,790,768
Improvements other than buildings	467,740	-	-	467,740
Machinery and vehicles	<u>3,746,740</u>	<u>211,999</u>	<u>-</u>	<u>3,958,739</u>
Total	<u>\$ 5,996,498</u>	<u>\$ 243,033</u>	<u>\$ -</u>	<u>\$ 6,239,531</u>

Fixed assets of the component units consisted of land, buildings, and equipment totaling \$303,074, \$827,023, and \$735,997, respectively.

A summary of proprietary fund fixed assets and depreciable lives at December 31, 2003 follows:

	Enterprise Funds	Internal Service Fund	Total	Depreciable Life - Years
Land	\$ 48,700	\$ -	\$ 48,700	-
Land improvements	5,127	8,539	13,666	10
Buildings	3,637,008	-	3,637,008	20
Utility system	11,511,275	-	11,511,275	50-100
Machinery and equipment	<u>1,104,092</u>	<u>1,027,719</u>	<u>2,131,811</u>	4-50
Total	16,306,202	1,036,258	17,342,460	
Less accumulated depreciation	<u>(6,505,852)</u>	<u>(628,164)</u>	<u>(7,134,016)</u>	
Net	<u>\$ 9,800,350</u>	<u>\$ 408,094</u>	<u>\$ 10,208,444</u>	

City of Albion, Michigan

Notes to Financial Statements December 31, 2003

Note 5 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the City as of December 31, 2003:

	Number of Issues	Interest Rate	Maturing Through	Principal Outstanding
Enterprise Funds:				
Revenue bonds	2	5.20%-5.75%	2017	\$ 1,520,000
Equipment loans	1	5.99%	2006	65,987
General obligations:				
Building Authority bonds	1	4.6%	2004	150,000
Transportation Fund bonds	1	5.45%-5.6%	2006	60,000
Unlimited Tax bonds	1	4.75%-5.25%	2017	1,370,000
Equipment loans	1	4.4%	2011	350,000
Chemical Bank liability	1	5.5%	2011	96,136
Environmental Protection Agency liability	-	-	-	460,000
Potential Michigan Tax Tribunal adjustments	-	-	-	90,000
Accumulated employee benefits	-	-	-	150,177
Total long-term debt				<u>\$ 4,312,300</u>

The accumulated employee benefits represent the estimated liability to be paid governmental fund-type employees under the City's sick and vacation pay policy, net of the portion that is estimated will be paid currently. Under the City's policy, employees earn sick and vacation time based on time of service with the City. The City's accounting policy is to record the vacation pay as it accumulates and to record the sick pay as it vests. Accumulated sick pay is not significantly greater than vested sick pay. The EPA liability represents payment for cleanup costs to be performed on a former landfill plus a portion of the operations and maintenance costs to be completed over the next 26 years.

Debt outstanding for component units consisted of Downtown Development Authority bonds totaling \$290,000, bearing interest from 5.65 percent to 6.15 percent and maturing through 2008, a CDBG loan payable totaling \$183,850, bearing interest at 4 percent with quarterly principal and interest payments commencing in 2003 through 2008, and a land contract in the Economic Development Corporation totaling \$54,130, bearing interest at 7 percent with principal and interest payments commencing in 2002 through 2017.

City of Albion, Michigan

Notes to Financial Statements December 31, 2003

Note 5 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the City and its component units for the year ended December 31, 2003:

	General Obligations	Revenue Bonds	Total	Component Units
Balance - January 1, 2003	\$ 3,251,592	\$ 1,590,000	\$ 4,841,592	\$ 589,452
Decrease in EPA/MTT obligation	(80,000)	-	(80,000)	-
Decrease of potential liability for Michigan Tax Tribunal adjustments	(80,000)	-	(80,000)	-
Debt retired	<u>(299,292)</u>	<u>(70,000)</u>	<u>(369,292)</u>	<u>(61,472)</u>
Balance - December 31, 2003	<u>\$ 2,792,300</u>	<u>\$ 1,520,000</u>	<u>\$ 4,312,300</u>	<u>\$ 527,980</u>

Debt Service Requirements

The annual requirements to service all debt outstanding as of December 31, 2003 (excluding environmental liabilities, potential MTT adjustments, and employee benefits), including both principal and interest, are as follows:

Years Ending December 31	Other Governmental Fund Resources	Component Units
2004	\$ 576,809	\$ 110,858
2005	385,400	119,421
2006	338,289	115,881
2007	342,980	168,741
2008	347,595	35,285
Remaining years	<u>2,884,803</u>	<u>52,133</u>
Total	<u>\$ 4,875,876</u>	<u>\$ 602,319</u>

Note 5 - Long-term Debt (Continued)

Interest

Total interest incurred by the City for the year ended December 31, 2003 approximated \$201,000. Total interest incurred by the component units for the year ended December 31, 2003 approximated \$19,000.

TIFA Agreement

The Tax Increment Finance Authority (TIFA), a component unit of the City, has entered into an agreement with the City whereby the TIFA will fund a percentage of the City's principal and interest payments on an annual basis as follows:

General obligations - Transportation Fund bonds	70.56%
Enterprise Funds - Revenue bonds	35.33%

The amount paid to the City for principal and interest for the year ended December 31, 2003 was \$17,209.

Defeased Debt

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At December 31, 2003, \$150,000 of bonds outstanding are considered defeased.

City of Albion, Michigan

Notes to Financial Statements December 31, 2003

Note 6 - Interfund Receivables

The following are the interfund receivables at December 31, 2003:

Fund Due To	Fund Due From	Amount
General Fund	Special Revenue Funds:	
	Community Development	
	Block Grant Fund	\$ 101,010
	Trust and Agency Funds:	
	Expendable Trust - Senior Citizen Housing	300,000
	Total General Fund	401,010
Special Revenue Funds:		
Local Street	General Fund	1,612
Albion Building Authority	General Fund	112,692
Community Development	Special Revenue Funds:	
Block Grant Fund	Albion Building Authority	24,787
	Total Special Revenue Funds	139,091
Debt Service Fund	Special Revenue Funds:	
	Albion Building Authority	351,754
Enterprise Funds:		
Sewer Fund	Special Revenue Funds:	
	Albion Building Authority	14,769
	Total interfund receivables	\$ 906,624

Note 7 - Contributed Capital

Contributed capital represents the capital contributed from all sources to the Water and Sewer Funds since inception. The amounts attributable to each of these separate sources prior to 1987 cannot be determined at this time. The following is an analysis of contributed capital by source:

Capital contributed from all sources prior to December 31, 1986	\$ 6,573,107
Capital contributed since December 31, 1986, by source:	
Water and Sewer lines contributed by business	59,223
State grants	93,669
Other funds	<u>3,589,754</u>
Total	<u>\$ 10,315,753</u>

Note 8 - Retirement Systems

Plan Description

Public Safety Officers' Pension Fund - The City maintains the Public Safety Officers' Pension Fund, which is the administrator of a single-employer, public employees' retirement system that covers public safety employees of the City. At December 31, 2002, the date of the most recent actuarial valuation, membership consisted of 28 retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 28 current active employees. The plan does not issue a separate financial report.

Michigan Municipal Employees' Retirement System - The City also contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple-employer retirement system that covers all other full-time employees of the City. The System provides retirement benefits, as well as death and disability benefits to plan members and their beneficiaries.

The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at MMERS of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

Note 8 - Retirement Systems (Continued)

Annual Pension Cost

Public Safety Officers' Pension Fund - For the year ended December 31, 2003, the City's estimated normal pension cost was approximately \$240,000. The City received a temporary accelerated funding credit of approximately \$240,000, therefore reducing the City's required contribution to \$0. The City contributed \$0 during 2003. The annual contribution is determined using the individual entry age method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 6 percent per year compounded annually and (b) projected salary increases of 4 percent to 8 percent per year compounded annually. The above percentages include an inflation component of 4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percent of payroll with a remaining amortization period of 17 years.

Michigan Municipal Employees' Retirement System - For the year ended December 31, 2003, the City's estimated normal pension cost was approximately \$148,500. The City received a temporary accelerated funding credit in the current year of approximately \$74,000, which reduced the estimated total employer contribution to approximately \$74,500, with a minimum required contribution of approximately \$30,800. The City contributed approximately \$43,000 during 2003. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry age, normal-cost method. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 8 percent per year compounded annually, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation.

The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized by a level percent of payroll contributions over a period of 30 years.

Funding Policy

Public Safety Officers' Pension Fund - Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 4 percent. Any periodic employer contributions would be determined at actuarial rates.

Note 8 - Retirement Systems (Continued)

Michigan Municipal Employees' Retirement System - The obligation to contribute to and maintain the system for these employees was established by negotiation with the American Federation of State, County, and Municipal Employees' Local 1248 and the International Union of Operating Engineers Local 547C competitive bargaining units and requires no contribution from the employees.

Reserved Fund Balance

As of December 31, 2003, the Public Safety Officers' Pension Fund's legally required reserves have been fully funded as follows:

Reserves for employees' contributions	\$	555,451
Reserves for retired benefit payments		5,147,307
Reserves for active employees		7,871,691

There has been no required contribution for the Public Safety Officers' Pension Fund or the Michigan Municipal Employees' Retirement System for the past three years.

Note 9 - Segment Information - Enterprise Funds

The City maintains two Enterprise Funds. Segment information for the year ended December 31, 2003 is as follows:

	Water Fund	Sewer Fund	Total
Operating revenue	\$ 641,752	\$ 817,731	\$ 1,459,483
Depreciation	247,536	206,648	454,184
Operating loss	(83,640)	(186,600)	(270,240)
Net loss	(154,852)	(184,284)	(339,136)
Land, buildings, and equipment -			
Additions	24,867	1,640	26,507
Net working capital	405,248	1,318,937	1,724,185
Total assets	6,674,017	5,312,321	11,986,338
Long-term debt	1,507,400	78,587	1,585,987
Total equity	5,058,353	5,165,856	10,224,209

Note 10 - Contingencies

The Environmental Protection Agency (EPA) has identified the City as one of the potentially responsible parties for the contamination of a landfill used by the City and has named the City in an action filed in 1997 seeking to recover the EPA's past service costs and oversight costs. The parties negotiated a settlement calling for the City to make certain settlement payments and conduct operations and maintenance work jointly with another party. The Michigan Department of Environmental Quality (MDEQ) is also seeking to recover response costs in a related but separate claim. The liabilities associated with the settlement and negotiation have been recorded in the General Long-term Debt Account Group (see Note 5).

In addition, the City has informed the Michigan Department of Natural Resources of leaking underground storage tanks that were in the City's possession. The City has removed the underground storage tanks and taken action to limit further contamination caused by the underground storage tanks. The cost to remedy the pollution, if any, has not yet been determined.

The Michigan Department of Environmental Quality has named the City as "owner" of a site identified as a site of environmental contamination. Settlement discussions with regard to any alleged liability are ongoing and an amount cannot be estimated at this time.

While the ultimate cost to remedy these sites may be significant, a reasonable estimate and the City's share of the ultimate cost cannot be determined. Accordingly, no provision has been recorded in the financial statements at December 31, 2003 related to these matters except as described above.

The City also has three taxpayers who are disputing portions of their personal property tax assessments. The approximate amount of the dispute at December 31, 2003 is \$90,000. Although the ultimate outcome is not known at this time, a provision for a potential Michigan Tax Tribunal adjustment has been recorded in the General Long-term Debt Account Group. The City also has a contingent liability for repayment of prior years' delinquent real taxes that have been paid by the county of Calhoun, as a result of local industry that is in bankruptcy. The amount of the contingent liability is unknown at this time.

Note 11 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee injury and medical claims, and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 12 - Restricted Assets

Restricted assets at December 31, 2003 consist of cash and investments totaling \$210,661. The assets are restricted for the purpose of servicing the debt of the two revenue bonds. Retained earnings have been reserved for an amount equal to the restricted assets.

Note 13 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement in accordance with labor contracts. Currently, 14 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its insured health care plan, with contributions required by the participant, dependent upon each union contract. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$18,000 for six retirees. The benefits for the other eight retirees are paid for through the City of Albion Public Safety Officers' Retirement System.

Note 14 - Component Unit Financial Information

Condensed financial statements for each of the discretely presented component units are presented below:

	Balance Sheet Classifications				
	Tax Increment Finance Authority	Downtown Development Authority	Library	Economic Development Corporation	Total
Assets					
Current assets	\$ 117,746	\$ 164,847	\$ 149,083	\$ 71,804	\$ 503,480
Property, plant, and equipment	540,534	4,088	1,251,472	70,000	1,866,094
Amounts to be provided for payment of long-term debt	183,850	290,000	-	54,130	527,980
Total assets	<u>\$ 842,130</u>	<u>\$ 458,935</u>	<u>\$ 1,400,555</u>	<u>\$ 195,934</u>	<u>\$ 2,897,554</u>
Liabilities					
Current liabilities	\$ 26,466	\$ 1,074	\$ 9,962	\$ 24,828	\$ 62,330
Long-term debt	183,850	290,000	-	54,130	527,980
Total liabilities	210,316	291,074	9,962	78,958	590,310
Equity					
Investment in general fixed assets	540,534	4,088	1,251,472	70,000	1,866,094
Fund balances	91,280	163,773	139,121	46,976	441,150
Total equity	631,814	167,861	1,390,593	116,976	2,307,244
Total liabilities and equity	<u>\$ 842,130</u>	<u>\$ 458,935</u>	<u>\$ 1,400,555</u>	<u>\$ 195,934</u>	<u>\$ 2,897,554</u>
Statements of Revenue, Expenditures, and Changes in Fund Balances					
	Tax Increment Finance Authority	Downtown Development Authority	Library	Economic Development Corporation	Total
Revenue and other financing sources	\$ 309,121	\$ 143,181	\$ 466,335	\$ 107,484	\$ 1,026,121
Expenditures and other uses	229,383	190,591	432,256	213,548	1,065,778
Excess of revenue and other financing sources over (under) expenditures and other uses	79,738	(47,410)	34,079	(106,064)	(39,657)
Fund balances:					
Beginning of year	11,542	211,183	105,042	153,040	480,807
End of year	<u>\$ 91,280</u>	<u>\$ 163,773</u>	<u>\$ 139,121</u>	<u>\$ 46,976</u>	<u>\$ 441,150</u>

City of Albion, Michigan

Notes to Financial Statements December 31, 2003

Note 15 - Construction Code Fees

The City oversees building construction, in accordance with the state's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Deficit at December 31, 2002	\$ (25,288)
Construction code revenue	25,243
Related expenses - Direct costs	<u>(58,796)</u>
Deficit at December 31, 2003	<u><u>\$ (58,841)</u></u>

Note 16 - Subsequent Event

During June 2004, the City agreed to purchase new computer hardware and software systems through an installment purchase plan. The total purchase price will be approximately \$225,000. The installment plan calls for principal payments commencing on September 1, 2005, with the fifth and final payment made on September 1, 2009. The installment plan also calls for semi-annual interest payments at a rate of 3.34% per annum, commencing March 1, 2005, and on March 1 and September 1 thereafter.

Note 17 - Upcoming Reporting Change

For the year beginning January 1, 2004, the City plans to adopt GASB Statement No. 34. This will dramatically revise the information being reported in these financial statements. Governmental activities will report information by individually significant fund, as well as in total on the full accrual basis of accounting. Information is not available to present pro forma data that would show the effect of this future change.

Additional Information



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To the Mayor and City Council
City of Albion, Michigan

We have audited the general purpose financial statements of the City of Albion, Michigan for the year ended December 31, 2003. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the City of Albion, Michigan. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

July 8, 2004

City of Albion, Michigan

Required Supplementary Information - Retirement Systems Public Safety Officers' Pension Fund (dollar amounts in millions) Schedule of Funding Progress*

Actuarial Valuation Date as of December 31	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded (Overfunded) AAL (2)-(1)	(4) Percent Funded (1)/(2)	(5) Annual Covered Payroll	(6) Unfunded (Overfunded) AAL as a Percentage of Covered Payroll (3)/(5)
1997	10.3	7.1	(3.2)	145	1.2	-
1998**	11.3	7.9	(3.4)	143	1.2	-
1999	12.3	7.5	(4.8)	164	1.2	-
2000	13.2	7.8	(5.4)	169	1.3	-
2001	13.8	8.1	(5.7)	170	1.4	-
2002	13.9	8.3	(5.6)	168	1.2	-

* Required by Governmental Accounting Standards Board Statement Numbers 25 and 27

** After changes in benefit provisions or revised actuarial assumptions

*** Valuation not performed

Schedule of Employer Contributions

Fiscal Year	Annual Recommended Contribution	Actual Contribution	Percent Contributed
1998#	-	-	100
1999	-	-	100
2000	-	-	100
2001	-	-	100
2002	-	-	100
2003	-	-	100

Corresponding valuation (December 31, 1996) not performed

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2002, the latest actuarial valuation, is as follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll
Remaining amortization period	17 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases*	4.0%-8.0%

* Includes inflation at 4.0%

City of Albion, Michigan

Required Supplementary Information - Retirement Systems (Continued) Michigan Municipal Employees' Retirement System Summary of Actuarial Methods and Assumptions and Trend Information

As of December 31	Annual Pension Cost (APC)	Percent of APC Contributed	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded AAL	Funded Ratio (Percent)	Covered Payroll	Overfunded AAL as a Percentage of Covered Payroll
1994	\$ -	N/A	\$ N/A	\$ N/A	\$ N/A	N/A	\$ 1,407,697	N/A
1995	-	N/A	13,321,853	7,621,665	5,700,188	174.8	1,600,829	356.1
1996	-	N/A	13,918,729	8,336,866	5,581,863	167.0	1,559,156	358.0
1997	-	N/A	14,905,380	8,795,971	6,109,409	169.5	1,814,364	336.7
1998	-	N/A	12,168,642	8,492,890	3,675,752	143.3	1,928,956	190.6
1999	-	N/A	13,450,738	8,844,021	4,606,717	152.1	1,783,358	258.3
2000	-	N/A	14,187,498	9,770,497	4,417,001	145.2	1,794,225	246.2
2001	-	N/A	14,560,625	10,026,117	4,534,508	145.2	1,794,677	252.7
2002	-	N/A	14,212,375	10,572,878	3,639,497	134.4	1,740,941	209.1

City of Albion, Michigan

General Fund Statement of Revenue and Expenditures Budget and Actual Year Ended December 31, 2003

	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Taxes	\$ 2,237,000	\$ 2,179,805	\$ (57,195)
License and permits	92,500	79,347	(13,153)
Federal sources	131,600	142,785	11,185
State sources	1,403,600	1,419,862	16,262
Local sources	24,350	24,352	2
Contributions from private individuals	-	-	-
Charges for services	228,500	238,196	9,696
Fines and forfeitures	57,000	58,421	1,421
Miscellaneous revenue	124,750	146,173	21,423
Total revenue	4,299,300	4,288,941	(10,359)
Expenditures			
General government:			
City Council	35,000	29,893	5,107
City Manager	110,000	107,757	2,243
Human Resources	48,000	48,588	(588)
City Assessor	112,000	107,083	4,917
City Attorney	71,300	68,532	2,768
Clerk/Treasurer	350,000	356,607	(6,607)
Planning	118,000	121,071	(3,071)
Municipal Building	80,000	72,977	7,023
Environment expenditures	90,000	91,951	(1,951)
City Engineer	40,000	33,730	6,270
Total general government	1,054,300	1,038,189	16,111
Public safety	2,405,940	2,561,365	(155,425)
Highways and streets	165,000	169,875	(4,875)
Welfare, culture, and recreation:			
Cemetery	142,000	143,261	(1,261)
Parks	190,000	194,312	(4,312)
Recreation	160,000	161,911	(1,911)
Tree trimming	9,000	8,731	269
Code enforcement	60,000	58,797	1,203
Other	31,000	31,141	(141)
Total welfare, culture, and recreation	592,000	598,153	(6,153)
Miscellaneous expenditures - General appropriation	180,000	193,316	(13,316)
Total expenditures	4,397,240	4,560,898	(163,658)
Excess of Revenue Over (Under) Expenditures	(97,940)	(271,957)	(174,017)
Other Financing Sources (Uses)			
Operating transfers in	400,000	400,000	-
Operating transfers out	(302,060)	(288,207)	13,853
Total other financing sources	97,940	111,793	13,853
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	\$ -	\$ (160,164)	\$ (160,164)

City of Albion, Michigan

	Major Streets	Local Streets	Solid Waste
Assets			
Cash and investments	\$ 168,312	\$ 33,428	\$ 110,812
Receivables:			
Taxes	-	-	17,573
Rehabilitation loans	-	-	-
Economic Development loans	-	-	-
Other	2,279	-	1,314
Due from other governmental units	72,777	24,962	-
Due from other funds	-	1,612	-
Due from component units	17,209	-	-
Other assets	12,370	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u><u>\$ 272,947</u></u>	<u><u>\$ 60,002</u></u>	<u><u>\$ 129,699</u></u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 7,044	\$ 184	\$ 311
Accrued and other liabilities	4,653	2,522	494
Due to other funds	-	-	-
Rehabilitation escrow	-	-	-
Economic Development escrow	-	-	-
Deferred revenue	-	-	21,957
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	11,697	2,706	22,762
Fund Balances	<u>261,250</u>	<u>57,296</u>	<u>106,937</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u><u>\$ 272,947</u></u>	<u><u>\$ 60,002</u></u>	<u><u>\$ 129,699</u></u>

**Special Revenue Funds
Combining Balance Sheet
December 31, 2003**

Community Development Block Grant	Drug Law Enforcement	Albion Building Authority	Revolving Loan	Total
\$ 237,264	\$ 8,036	\$ 474,235	\$ 327,565	\$ 1,359,652
-	-	-	-	17,573
459,751	-	-	-	459,751
-	-	-	277,017	277,017
16,991	-	-	8	20,592
-	-	-	-	97,739
137,479	-	-	-	139,091
-	-	-	-	17,209
-	-	1,967	-	14,337
<u>\$ 851,485</u>	<u>\$ 8,036</u>	<u>\$ 476,202</u>	<u>\$ 604,590</u>	<u>\$ 2,402,961</u>
\$ -	\$ 200	\$ 3,378	\$ -	\$ 11,117
-	1,974	15,943	-	25,586
101,010	-	391,310	-	492,320
750,475	-	-	-	750,475
-	-	-	421,185	421,185
-	-	-	-	21,957
851,485	2,174	410,631	421,185	1,722,640
-	5,862	65,571	183,405	680,321
<u>\$ 851,485</u>	<u>\$ 8,036</u>	<u>\$ 476,202</u>	<u>\$ 604,590</u>	<u>\$ 2,402,961</u>

City of Albion, Michigan

	Major Streets	Local Streets	Solid Waste
Revenue			
Taxes	\$ -	\$ -	\$ 180,536
Federal sources	-	-	-
State sources	459,361	157,272	-
Charges for services	1,852	-	-
Miscellaneous revenue	32,227	-	2,382
	<u>493,440</u>	<u>157,272</u>	<u>182,918</u>
Expenditures			
Highways and streets	374,166	228,607	-
Economic development	-	-	-
Welfare, culture, and recreation	-	-	-
Community maintenance and development	-	-	120,339
Miscellaneous expenditures	3,967	-	-
	<u>378,133</u>	<u>228,607</u>	<u>120,339</u>
Excess of Revenue Over (Under) Expenditures	115,307	(71,335)	62,579
Other Financing Sources (Uses)			
Operating transfers in	26,826	-	-
Operating transfers out	(24,690)	(9,617)	-
	<u>2,136</u>	<u>(9,617)</u>	<u>-</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	117,443	(80,952)	62,579
Fund Balances - January 1, 2003	<u>143,807</u>	<u>138,248</u>	<u>44,358</u>
Fund Balances - December 31, 2003	<u>\$ 261,250</u>	<u>\$ 57,296</u>	<u>\$ 106,937</u>

Special Revenue Funds
Combining Statement of Revenue, Expenditures,
and Changes in Fund Balances
Year Ended December 31, 2003

Community Development Block Grant	Drug Law Enforcement	Albion Building Authority	Revolving Loan	Total
\$ -	\$ -	\$ -	\$ -	\$ 180,536
-	-	255,947	-	255,947
-	-	-	-	616,633
-	-	208,697	-	210,549
-	11,675	115,376	9,509	171,169
-	11,675	580,020	9,509	1,434,834
-	-	-	-	602,773
-	-	-	62,508	62,508
-	-	428,718	-	428,718
-	-	-	-	120,339
-	8,085	-	-	12,052
-	8,085	428,718	62,508	1,226,390
-	3,590	151,302	(52,999)	208,444
-	-	-	-	26,826
-	-	(179,961)	-	(214,268)
-	-	(179,961)	-	(187,442)
-	3,590	(28,659)	(52,999)	21,002
-	2,272	94,230	236,404	659,319
<u>\$ -</u>	<u>\$ 5,862</u>	<u>\$ 65,571</u>	<u>\$ 183,405</u>	<u>\$ 680,321</u>

City of Albion, Michigan

Enterprise Funds Combining Balance Sheet December 31, 2003

	Water	Sewer	Total
Assets			
Current Assets			
Cash and investments	\$ 418,589	\$ 1,135,205	\$ 1,553,794
Receivables:			
Customers	153,853	224,281	378,134
Other	-	2,260	2,260
Due from other funds	-	14,769	14,769
Inventories and other assets	9,770	16,600	26,370
Total current assets	582,212	1,393,115	1,975,327
Long-term Assets			
Restricted assets	210,661	-	210,661
Land, buildings, and equipment	5,881,144	3,919,206	9,800,350
Total assets	<u>\$ 6,674,017</u>	<u>\$ 5,312,321</u>	<u>\$ 11,986,338</u>
Liabilities and Fund Equity			
Current Liabilities			
Current portion of long-term debt	\$ 68,700	\$ 6,300	\$ 75,000
Accounts payable	23,701	19,320	43,021
Accrued and other liabilities	84,563	48,558	133,121
Total current liabilities	176,964	74,178	251,142
Long-term Debt - Net of current portion	<u>1,438,700</u>	<u>72,287</u>	<u>1,510,987</u>
Total liabilities	1,615,664	146,465	1,762,129
Fund Equity			
Contributed capital	4,795,772	5,519,981	10,315,753
Retained earnings (accumulated deficit):			
Reserve for restricted assets	210,661	-	210,661
Unreserved	51,920	(354,125)	(302,205)
Total fund equity	<u>5,058,353</u>	<u>5,165,856</u>	<u>10,224,209</u>
Total liabilities and fund equity	<u>\$ 6,674,017</u>	<u>\$ 5,312,321</u>	<u>\$ 11,986,338</u>

City of Albion, Michigan

Enterprise Funds Combining Statement of Revenue, Expenses, and Changes in Retained Earnings Year Ended December 31, 2003

	Water	Sewer	Total
Operating Revenue			
Charges for services	\$ 570,755	\$ 793,177	\$ 1,363,932
Interest and penalties	16,398	20,444	36,842
Miscellaneous revenue	54,599	4,110	58,709
	<hr/>	<hr/>	<hr/>
Total operating revenue	641,752	817,731	1,459,483
Operating Expenses			
Salaries and wages	182,932	371,466	554,398
Administrative costs	28,048	24,356	52,404
Fringe benefits	65,373	137,816	203,189
Maintenance and supplies	72,604	93,157	165,761
Purchased power and utilities	59,493	109,183	168,676
Professional services	45,468	27,949	73,417
Depreciation	247,536	206,648	454,184
Rental expense	6,273	314	6,587
Insurance	17,120	28,890	46,010
Miscellaneous expense	545	4,552	5,097
	<hr/>	<hr/>	<hr/>
Total operating expenses	725,392	1,004,331	1,729,723
Operating Loss	(83,640)	(186,600)	(270,240)
Nonoperating Revenue (Expense)			
Interest income	10,948	5,655	16,603
Interest expense	(82,160)	(3,339)	(85,499)
	<hr/>	<hr/>	<hr/>
Total nonoperating revenue (expense)	(71,212)	2,316	(68,896)
Net Loss	(154,852)	(184,284)	(339,136)
Retained Earnings (Accumulated Deficit) -			
January 1, 2003	417,433	(169,841)	247,592
	<hr/>	<hr/>	<hr/>
Retained Earnings (Accumulated Deficit) -			
December 31, 2003	<u>\$ 262,581</u>	<u>\$ (354,125)</u>	<u>\$ (91,544)</u>

City of Albion, Michigan

Enterprise Funds Combining Statement of Cash Flows Year Ended December 31, 2003

	Water	Sewer	Total
Cash Flows from Operating Activities			
Operating loss	\$ (83,640)	\$ (186,600)	\$ (270,240)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	247,536	206,648	454,184
Changes in assets and liabilities:			
Receivables	699,902	6,839	706,741
Inventories and other assets	(1,179)	(1,178)	(2,357)
Accounts payable	12,771	9,010	21,781
Accrued and other liabilities	(991)	735	(256)
Net cash provided by operating activities	874,399	35,454	909,853
Cash Flows from Capital and Related Financing Activities			
Repayments of advances to other funds	(300,371)	-	(300,371)
Receipt of advances from other funds	6,608	540,005	546,613
Principal and interest paid on long-term debt	(145,860)	(38,992)	(184,852)
Purchase of capital assets	(24,868)	(1,639)	(26,507)
Net cash provided by (used in) capital and related financing activities	(464,491)	499,374	34,883
Cash Flows from Investing Activities			
Interest received on investments	10,948	5,655	16,603
Purchase of investments - Net of sales proceeds	(8,079)	(5,655)	(13,734)
Net cash provided by investing activities	2,869	-	2,869
Net Increase in Cash and Cash Equivalents	412,777	534,828	947,605
Cash and Cash Equivalents - Beginning of year	(566,381)	293,354	(273,027)
Cash and Cash Equivalents - End of year*	<u>\$ (153,604)</u>	<u>\$ 828,182</u>	<u>\$ 674,578</u>

During the year ended December 31, 2003, the City had no non-cash transactions.

City of Albion, Michigan

Enterprise Funds Combining Statement of Cash Flows (Continued) Year Ended December 31, 2003

	Water	Sewer	Total
Balance Sheet Reconciliation			
Cash and investments	\$ 629,250	\$ 1,135,205	\$ 1,764,455
Less investments	<u>(782,854)</u>	<u>(307,023)</u>	<u>(1,089,877)</u>
Total cash and cash equivalents*	<u><u>\$ (153,604)</u></u>	<u><u>\$ 828,182</u></u>	<u><u>\$ 674,578</u></u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 418,589	\$ 1,135,205	\$ 1,553,794
Restricted assets	<u>210,661</u>	<u>-</u>	<u>210,661</u>
Total	<u><u>\$ 629,250</u></u>	<u><u>\$ 1,135,205</u></u>	<u><u>\$ 1,764,455</u></u>

* Negative cash is caused by the allocation of pooled cash balances and does not represent overdrafts at the financial institution.

City of Albion, Michigan

Trust and Agency Funds Combining Balance Sheet December 31, 2003

	Trust Funds			Expendable Trust	Agency Fund	
	Public Safety Officers' Pension	Nonexpendable Trusts Cemetery	Library	Senior Citizen Housing Facility	Escrow	Total
Assets						
Cash and investments	\$ 13,435,658	\$ 363,353	\$ 991,361	\$ 1,557,883	\$ 465,703	\$ 16,813,958
Accrued interest	87,291	-	-	-	-	87,291
Accounts receivable	51,500	-	-	-	1,193	52,693
Total assets	\$ 13,574,449	\$ 363,353	\$ 991,361	\$ 1,557,883	\$ 466,896	\$ 16,953,942
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ 100	\$ -	\$ -	\$ 315,592	\$ 315,692
Accrued liabilities	-	-	-	-	1,835	1,835
Due to other funds	-	-	-	300,000	-	300,000
Due to other governmental units	-	-	-	-	149,469	149,469
Total liabilities	-	100	-	300,000	466,896	766,996
Fund Balances						
Reserved for Public Safety Officers' Pension Fund	13,574,449	-	-	-	-	13,574,449
Reserved for perpetual care	-	363,253	-	-	-	363,253
Reserved for Library	-	-	991,361	-	-	991,361
Reserved for Senior Citizen Housing	-	-	-	1,107,883	-	1,107,883
Reserved for debt service	-	-	-	150,000	-	150,000
Total fund balances	13,574,449	363,253	991,361	1,257,883	-	16,186,946
Total liabilities and fund balances	\$ 13,574,449	\$ 363,353	\$ 991,361	\$ 1,557,883	\$ 466,896	\$ 16,953,942

City of Albion, Michigan

Trust and Agency Funds Combining Statement of Revenue, Expenses, and Changes in Fund Balances Nonexpendable Trust Funds Year Ended December 31, 2003

	Cemetery	Library	Total
Operating Revenue - Charges for services	\$ 3,450	\$ -	\$ 3,450
Nonoperating Revenue - Investment income	<u>782</u>	<u>19,526</u>	<u>20,308</u>
Total revenue	4,232	19,526	23,758
Other Financing Uses - Operating transfers out	<u>-</u>	<u>(24,167)</u>	<u>(24,167)</u>
Net Income (Loss)	4,232	(4,641)	(409)
Fund Balances - January 1, 2003	<u>359,021</u>	<u>996,002</u>	<u>1,355,023</u>
Fund Balances - December 31, 2003	<u><u>\$ 363,253</u></u>	<u><u>\$ 991,361</u></u>	<u><u>\$ 1,354,614</u></u>

City of Albion, Michigan

Trust and Agency Funds Combining Statement of Cash Flows Nonexpendable Trust Funds Year Ended December 31, 2003

	<u>Cemetery</u>	<u>Library</u>	<u>Total</u>
Cash Flows from Operating Activities			
Operating income	\$ 3,450	\$ -	\$ 3,450
Changes in assets and liabilities - Receivables	<u>(7,448)</u>	<u>-</u>	<u>(7,448)</u>
Net cash used in operating activities	(3,998)	-	(3,998)
Cash Flows from Noncapital Financing Activities			
Operating transfers out	-	(24,167)	(24,167)
Cash Flows from Investing Activities			
Interest received on investments	782	19,526	20,308
Purchase of investments - Net of proceeds	<u>(782)</u>	<u>-</u>	<u>(782)</u>
Net cash provided by investing activities	<u>-</u>	<u>19,526</u>	<u>19,526</u>
Net Decrease in Cash and Cash Equivalents	(3,998)	(4,641)	(8,639)
Cash and Cash Equivalents - January 1, 2003	<u>321,047</u>	<u>3,239</u>	<u>324,286</u>
Cash and Cash Equivalents - December 31, 2003	<u>\$ 317,049</u>	<u>\$ (1,402)</u>	<u>\$ 315,647</u>
Balance Sheet Classification			
Cash and investments	\$ 363,353	\$ 991,361	\$ 1,354,714
Less investments	<u>(46,304)</u>	<u>(992,763)</u>	<u>(1,039,067)</u>
Total cash and cash equivalents	<u>\$ 317,049</u>	<u>\$ (1,402)</u>	<u>\$ 315,647</u>

City of Albion, Michigan

Schedule of Bonded Indebtedness December 31, 2003

Description	Interest	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
	Rate			December 31	
	(Percent)			2003	2002
Building Authority Refunding Bonds - Senior Citizen					
Housing Facility - Maple Grove Apartments					
Date of issue - September 10, 1997					
Amount of issue - \$1,035,000					
	4.50	11/01/03	155,000	\$ -	\$ 155,000
	4.60	11/01/04	150,000	150,000	150,000
Total Building Authority Refunding Bonds				\$ 150,000	\$ 305,000
Transportation Fund Bonds					
Date of issue - June 1, 1996					
Amount of issue - \$170,000					
	5.35	10/01/03	20,000	\$ -	\$ 20,000
	5.45	10/01/04	20,000	20,000	20,000
	5.55	10/01/05	20,000	20,000	20,000
	5.60	10/01/06	20,000	20,000	20,000
Total Transportation Fund Bonds				\$ 60,000	\$ 80,000

City of Albion, Michigan

Schedule of Bonded Indebtedness (Continued) December 31, 2003

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				December 31	
				2003	2002
General Obligation Unlimited Tax Bonds					
Date of issue - June 1, 1997					
Amount of issue - \$1,700,000					
	4.75	10/01/03	\$ 60,000	\$ -	\$ 60,000
	4.75	10/01/04	65,000	65,000	65,000
	4.85	10/01/05	70,000	70,000	70,000
	4.95	10/01/06	75,000	75,000	75,000
	5.00	10/01/07	80,000	80,000	80,000
	5.10	10/01/08	80,000	80,000	80,000
	5.15	10/01/09	85,000	85,000	85,000
	5.20	10/01/10	90,000	90,000	90,000
	5.25	10/01/11	100,000	100,000	100,000
	5.25	10/01/12	105,000	105,000	105,000
	5.25	10/01/13	110,000	110,000	110,000
	5.25	10/01/14	115,000	115,000	115,000
	5.25	10/01/15	125,000	125,000	125,000
	5.25	10/01/16	130,000	130,000	130,000
	5.25	10/01/17	140,000	140,000	140,000
Total General Obligation Unlimited Tax Bonds				<u>\$ 1,370,000</u>	<u>\$ 1,430,000</u>

City of Albion, Michigan

Schedule of Bonded Indebtedness (Continued) December 31, 2003

Description	Interest Rate (Percent)	Date of Maturity	Amount of Annual Maturity	Principal Outstanding	
				December 31	
				2003	2002
Enterprise Funds Revenue Bonds					
Water Supply and Sewage Disposal System					
Revenue Bonds, Series 1996					
Date of issue - June 1, 1996					
Amount of issue - \$100,000					
	5.55	10/01/03	\$ 15,000	\$ -	\$ 15,000
	5.65	10/01/04	15,000	15,000	15,000
	5.75	10/01/05	15,000	15,000	15,000
Total Series 1996 Revenue Bonds				30,000	45,000
Water Supply and Sewage Disposal System					
Revenue Bonds, Series 1997					
Date of issue - June 1, 1997					
Amount of issue - \$1,800,000					
	5.20	10/01/03	55,000	-	55,000
	5.20	10/01/04	60,000	60,000	60,000
	5.20	10/01/05	60,000	60,000	60,000
	5.20	10/01/06	80,000	80,000	80,000
	5.20	10/01/07	85,000	85,000	85,000
	5.20	10/01/08	90,000	90,000	90,000
	5.20	10/01/09	95,000	95,000	95,000
	5.20	10/01/10	105,000	105,000	105,000
	5.20	10/01/11	110,000	110,000	110,000
	5.20	10/01/12	115,000	115,000	115,000
	5.25	10/01/13	120,000	120,000	120,000
	5.25	10/01/14	130,000	130,000	130,000
	5.25	10/01/15	140,000	140,000	140,000
	5.25	10/01/16	145,000	145,000	145,000
	5.25	10/01/17	155,000	155,000	155,000
Total Series 1997 Revenue Bonds				1,490,000	1,545,000
Total Enterprise Funds Revenue Bonds				\$ 1,520,000	\$ 1,590,000

City of Albion, Michigan

Component Units Combining Balance Sheet December 31, 2003

	Tax Increment Finance Authority	Downtown Development Authority	Library	Economic Development Corporation	Total
Assets					
Cash and investments	\$ 114,851	\$ 164,066	\$ 148,569	\$ 64,648	\$ 492,134
Receivables - Other	538	490	-	-	1,028
Other assets	2,357	291	514	7,156	10,318
Capital assets	540,534	4,088	1,251,472	70,000	1,866,094
Amount to be provided for retirement of long-term debt	183,850	290,000	-	54,130	527,980
Total assets	<u>\$ 842,130</u>	<u>\$ 458,935</u>	<u>\$ 1,400,555</u>	<u>\$ 195,934</u>	<u>\$2,897,554</u>
Liabilities and Fund Equity					
Liabilities					
Accounts payable	\$ 4,454	\$ 283	\$ 5,444	\$ 22,523	\$ 32,704
Accrued and other liabilities	4,803	791	4,513	2,305	12,412
Due to other governmental units	-	-	5	-	5
Due to primary government	17,209	-	-	-	17,209
Long-term debt	183,850	290,000	-	54,130	527,980
Total liabilities	210,316	291,074	9,962	78,958	590,310
Fund Equity					
Investment in general fixed assets	540,534	4,088	1,251,472	70,000	1,866,094
Fund balances	91,280	163,773	139,121	46,976	441,150
Total fund equity	631,814	167,861	1,390,593	116,976	2,307,244
Total liabilities and fund equity	<u>\$ 842,130</u>	<u>\$ 458,935</u>	<u>\$ 1,400,555</u>	<u>\$ 195,934</u>	<u>\$2,897,554</u>

City of Albion, Michigan

Component Units Combining Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2003

	Tax Increment Finance Authority	Downtown Development Authority	Library	Economic Development Corporation	Total
Revenue					
Taxes	\$ 252,027	\$ 127,016	\$ -	\$ -	\$ 379,043
State sources	-	5,300	78,849	-	84,149
Local sources	-	1,251	-	-	1,251
Charges for services	-	-	57,906	96,182	154,088
Fines and forfeits	-	-	47,151	-	47,151
Miscellaneous revenue	57,094	447	25,436	11,302	94,279
Total revenue	309,121	134,014	209,342	107,484	759,961
Expenditures					
Economic development	212,174	119,906	-	213,548	545,628
Library	-	-	432,256	-	432,256
Total expenditures	212,174	119,906	432,256	213,548	977,884
Excess of Revenue Over (Under) Expenditures	96,947	14,108	(222,914)	(106,064)	(217,923)
Other Financing Sources (Uses)					
Operating transfers in	-	-	24,167	-	24,167
Operating transfers from primary government	-	9,167	232,826	-	241,993
Operating transfers to primary government	(17,209)	(70,685)	-	-	(87,894)
Total other financing sources (uses)	(17,209)	(61,518)	256,993	-	178,266
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	79,738	(47,410)	34,079	(106,064)	(39,657)
Fund Balances - Beginning of year	11,542	211,183	105,042	153,040	480,807
Fund Balances - End of year	<u>\$ 91,280</u>	<u>\$ 163,773</u>	<u>\$ 139,121</u>	<u>\$ 46,976</u>	<u>\$ 441,150</u>

City of Albion, Michigan

Component Units Schedule of Bonded Indebtedness December 31, 2003

Description	Interest	Date of Maturity	Amount of	Principal Outstanding	
	Rate		Annual	December 31	
	(Percent)		Maturity	2003	2002
General Obligation Bonds					
Downtown Development Authority Bonds - DDA Plan					
Date of issue - November 1, 1992					
Amount of issue - \$530,000					
	5.65	04/01/03	\$ 50,000	\$ -	\$ 50,000
	5.75	04/01/04	50,000	50,000	50,000
	5.90	04/01/05	60,000	60,000	60,000
	6.00	04/01/06	60,000	60,000	60,000
	6.05	04/01/07	60,000	60,000	60,000
	6.15	04/01/08	60,000	60,000	60,000
Total General Obligation Bonds				\$ 290,000	\$ 340,000

City of Albion, Michigan

Report to the City Commission

December 31, 2003



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July 8, 2004

Honorable Mayor and Members
of the City Commission
City of Albion, Michigan

We have recently completed the audit for the City of Albion, year ended December 31, 2003. In addition to our report on the financial statements, we would like to present the matters outlined in this report as potential opportunities for improvements to the internal controls and efficiency of your financial operation. These recommendations and informational comments are presented as outlined below:

TITLE	PAGE
Improving Internal Controls:	
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Honorable Mayor and Members
of the City Commission
City of Albion, Michigan

July 8, 2004

We would like to thank the City for the opportunity to be of service. We especially would like to thank the City's staff for all their help and efforts throughout the year-end audit. We would be happy to assist the City in the matters discussed above or in any way the City would benefit from our resources.

Very truly yours,

PLANTE & MORAN, PLLC



Leslie J. Pulver, CPA



Kim Hoppe, CPA

City of Albion, Michigan

December 31, 2003

Improving Internal Controls

In planning and performing our audit of the financial statements of the City of Albion for the year ended December 31, 2003, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. While performing our audit for the year ended December 31, 2003, we noted several items related to the internal control system of the City that are considered to be reportable conditions. As the accounting industry comes under increased scrutiny, we suggest the City take a closer look at the controls that are currently in place and review the suggestions provided below to assure that the assets of the City are properly recorded and appropriately safeguarded.

We consider the following items to be reportable conditions:

General Recordkeeping

During our audit, we were required to reconcile numerous general ledger account balances and make several journal entries to the City's books. The Mayor, City Commission, and City Manager must be able to rely on the general ledger balances throughout the year to make financial decisions. Without adequate reconciliations of the general ledger account balances throughout the year, it would be difficult for the Mayor, Commission, or management to rely on the account balances. We recommend the City reconcile and review general ledger activity on a monthly basis to provide accurate and valuable financial information to the Mayor, Commission and management.

- ***Budget Requirements*** – The following is a listing of the requirements that the City must comply with as part of the Uniform Budgeting Act:
 - Budgets must be adopted for the General Fund and all Special Revenue Funds.
 - Budgets must be balanced.
 - Budgets must be amended when necessary.
 - Public hearings must be held before budget adoptions.
 - Expenditures cannot exceed budget appropriations.
 - Expenditures must be authorized by a budget before being incurred.

As of December 31, 2003, the City had budget over-runs in two funds, the General Fund and the Special Revenue Fund. As stated above, expenditures cannot exceed budget appropriations. In two different funds, the City has violated this requirement of the Uniform Budget Act. The City's current recordkeeping processes do not appear to be giving the information needed for the City Commission and management to make the appropriate decisions to stay within the budgeted appropriations.

City of Albion, Michigan

December 31, 2003

General Recordkeeping (Continued)

- **Fund Deficits** - As of December 31, 2003, the City had a deficit in the Capital Project Fund. As a result, the City must file a "Deficit Elimination Plan" with the State of Michigan. In addition to the deficit, a few of the City's funds ended the year with negative cash balances. As with the above budget violations, it is apparent that the current financial operating system is not providing timely and accurate information to the decision makers to enable them to make the necessary decisions to keep the City's finances in-line with the budget and to keep appropriate cash balances in each fund.

Additionally, the General Fund, fund balance at December 31, 2004 was only \$29,879. Although this amount is a positive number, it must be noted that there is \$12,640 restricted for Public Safety Grants which can only be used to fulfill the requirements of the grant and \$95,414 reserved for inventories. Generally accepted accounting principles require that the City's financial statements reflect this reservation since the amount already invested in inventory is "not appropriable". In other words, inventory can not be used to pay vendors or employees of the City. As a result of the reservations noted above, the General Fund has an undesignated deficit of \$78,175. The City should immediately review the 2004 budget. The City should review what the projected fund balance was budgeted to be at December 31, 2004. If the City budgeted for a deficit fund balance at December 31, 2004, the City should promptly make the necessary adjustments to the budget taking into account the low level of fund balance at December 31, 2004.

Cash Reconciliations

During the audit, we noted cash reconciliations were not being completely reconciled to the general ledger on a regular basis. We understand the City made strides to improve this process during the year by bringing in extra assistance to the business office, although the necessary adjustments to the general ledger were not made to fully reconcile the statements. As of July, after additional assistance from the audit team, the pooled checking account was out-of balance approximately \$60,000, which was adjusted during the audit. Cash reconciliations are one of the most important components of a City's internal controls. As many cities find themselves with limited resources, it is increasingly important to have a good handle on your cash balances. While we understand staffing is limited, we recommend the City make bank reconciliations a top priority.

Utility Billing System

During our testing of the utility billing system, we noted that some of the City Commission's approved rate change had not been made to the system during the year, creating a situation in which customers were under-billed. We also noted during our testing, that the billings for the month of October were never posted to the general ledger. These two items are considered to be significant deficiencies in the design or operation of the internal control structure. To accurately record revenue, the City should monitor the changes to the billing system closely and reconcile the revenue billed to the general ledger on a quarterly basis, at a minimum.

City of Albion, Michigan

December 31, 2003

General Accounting Recommendations

Tax Collection Agency Fund

Related to the Tax Collection Agency Fund, we have noted that there appears to be a balance of cash remaining in the tax collection fund after settlement with the county has occurred. These funds may represent tax collections due to other City funds or other governmental units that have not been disbursed. We recommend the City compare the collections that have been recorded in the fund to the disbursements made during recent tax years to try to reconcile the account and determine if another governmental unit or fund should receive the funds.

Using a separate agency fund provides an opportunity for a self check of the City's tax collection process. This fund should clear itself out on an annual basis. The activity is very straightforward. The City should decide on a starting amount, such as \$1,000, in order to avoid bank charges. During the year, tax collections are added to the account, and taxes are disbursed on a timetable required by statute to the units which levied the taxes, including other City funds. The amount of taxes collected should equal the amount of taxes disbursed, essentially bringing the account back to the beginning amount. The only variance to this is if the account earns interest, in which case it should be disbursed to the City's General Fund on an annual basis. The operation of this fund should be no more complicated than described above. By doing so, the finance staff should immediately know that if the balance at the end of the tax collection period and settlement with the county is anything other than the predetermined starting amount, that there is a situation which requires analysis.

Wire Transfer Process

Currently, all of the wire transfers are performed by the same person who also prepares the bank reconciliations. While we understand that segregation of duties is difficult for some municipalities due to the limited number of finance staff available, we recommend segregating the wire transfer duties or adding an approval step to the wire transfer process. This will add an additional internal control over the City's assets.

Water Loss

During the audit, we noted a large amount of water loss was incurred in the current year, i.e., the amount of water pumped into the mains but not sold to customers.

Water loss can be caused by several factors, including municipal and hydrant use, water mains breaking, inaccurate meters or billing problems. We understand that the City is aware of the problem. We suggest this situation be reviewed and analyzed to determine if action can be taken at this time to reduce future losses. Some possible specific actions the City could take to identify the source of the water loss may include:

- Perform testing on accuracy of master meters
- Compare water loss by billing district or month to identify the greatest area of loss
- Identify leaking water mains
- Perform testing on a sample of customer meters to determine reading accuracy
- Evaluate meter reading accuracy and estimated billing procedures

The above items are primarily to assist you in retrospectively isolating possible causes of the increase in water loss. It would also be important to develop and implement procedures to monitor water loss on an ongoing basis.

City of Albion, Michigan

December 31, 2003

General Accounting Recommendations (Continued)

Albion Public Safety Officers' Pension System

As noted in the financial statements, the Pension System is reported as part of the primary government and it is the fiduciary responsibility of the City to track the Pension System activity. During the year, the pension system activity was not recorded in the general ledger of the City. The City receives quarterly statements from the Pension System trust which should be recorded in the general ledger. In addition, all activity related to the Albion Public Safety Officers' Pension System should be running through the trust. While performing our audit for 2003, we became aware that the City had received approximately \$50,000 in 2004 related to the reimbursement of expenses the City had paid for the retirement system. With these funds, the City has opened a new checking account. This activity should be merged with activity of the trust per the quarterly statements. We recommend the City begin to reconcile the trust statement activity to the general ledger on a quarterly basis.

Retirement Systems

The City has been fortunate to be over-funded in both retirement systems, the Public Safety Officers' Pension System and MERS. Currently, the City is not required to make a contribution to the Pension System and the MERS contribution is limited. The reason for the small contribution requirements is the City has been receiving a temporary accelerated funding credit in both the Pension System and MERS that reduces the required contributions. It would be appropriate to note that the credit is only temporary, so in the future the City should take the potential increase in retirement costs into account when budgeting.

Informational Comments

GASB 34 – New Reporting Model – Reminder

As you are already aware, the Government Accounting Standards Board has issued a major pronouncement that will drastically change the way municipal financial statements will look. For the City of Albion, this pronouncement is effective beginning January 1, 2004. Throughout the past fiscal year, the City has made substantial progress in preparing for this implementation. In the coming months, the City will need to finalize its plan on how to derive some of the new data that will be required by the new rules and will need to finish gathering that data. We also recommend that the Finance Department create "cut-over" financial statements using the new reporting model, which include beginning balances as of January 1, 2004. Subsequent to our audit of the "cut-over" financial statements, we would be happy to meet informally with the City's management team and Commission to discuss the impact of this pronouncement.